

CEEMET COMMENTS ON THE COMMISSION'S PROPOSAL TO OBLIGE COMPANIES TO DISCLOSE NON- FINANCIAL INFORMATION IN THEIR ANNUAL REPORTING:

CEEMET finds the European Commission's new proposal to review the accounting Directives 78/660/EEC and 83/349/EEC regarding disclosure of non-financial and diversity information by certain large companies and groups counterproductive.

The initial definition and the essence of corporate social responsibility (CSR) is its voluntary nature. Therefore, an obligation for disclosure of non-financial information is in contrast to the spirit of CSR. It will hamper the very positive development of CSR practices in companies through unnecessary bureaucratic burdens.

The directive proposal obliges companies *"whose average number of employees exceeds 500 and exceeds either a balance sheet total of 20 million euros or a net turnover of 40 million euros to disclose a statement in their Annual Report including information relating to at least environmental, social and employee-related*

matters, respect of human rights, anti-corruption and bribery aspects. Within these areas, the statement will include (i) a description of its policies, (ii) results and (iii) risk-related aspects". If a company does not pursue policies in relation to one or more of these matters, "it shall provide an explanation for not doing so".

GENERAL COMMENTS

The new EU definition of CSR does not reflect the original idea and may well be counterproductive

CEEMET finds the new EU definition of CSR problematic. In the original definition, CSR was described as *"a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"*. This allowed companies to be innovative and creative in their CSR practices and include areas such as environmentally sound production practices, community relations, corporate philanthropy, stakeholder engagement, charity and equal employment opportunity policies.

The new EU definition, "the responsibility of enterprises for their impacts on society", has clearly moved away from the voluntary nature of CSR by simply making it obligatory. It is thus less inspiring for companies to genuinely create something new when the CSR practices are already defined and imposed on them by regulations.

Overall, the new approach urges companies to either install CSR-policies in all areas mentioned in the new accounting directive or to explain why they didn't – thus it will force companies onto the defensive instead of motivating them in a positive manner. This could lead to a new CSR-mentality: Fulfilling the minimum requirements regarding the reporting obligations will be more important than supporting only certain CSR initiatives but wholeheartedly and for good reasons.

CSR initiatives make sense when they are consistent with the companies' strategies and when they are economically sustainable

Companies – like all stakeholders of CSR – must consider if and how it makes sense to engage in CSR initiatives. This is the case when CSR initiatives are consistent with the companies' strategies and when they are economically sustainable. CSR practices must be business-driven in order to create shared value for both society and companies – principles that have already proven successful in several member states.

The driver for CSR activities and reporting is and should remain the real or expected positive return in terms of business position in the market, image, coherence with company ethics and risk management. The decision to engage in CSR activities must therefore be taken by the company itself, based on its own convictions, its size, the specific nature of its business, its opportunity to allocate resources to CSR and the challenges it faces.

The Commission proposes that companies report on a list of areas even if they may not be relevant to their businesses. That kind of approach is not sustainable and will not create and ensure genuine interest of the companies to topics they are obliged to report on.

It is obvious that there is no single CSR business case. Every company is different and has to assess if they can be profitable and at the same time engage in initiatives concerning environmental, societal or employee-related matters beyond its legal obligations. Companies must also be able to choose if they want to make their voluntary engagement public or not. In addition, companies must be able to choose *the way* they communicate about their CSR practices to their stakeholders.

In contrast to the Commission's approach, no one-size-fits-all CSR agenda exists. Therefore, this legal initiative is not only against the spirit of the voluntary nature of CSR, it will also reduce the flexibility for companies to design their own individual CSR strategies.

These non-financial disclosure requirements will increase company's costs and administrative burdens

The Commission states that "further transparency should not translate into undue administrative burden". However, the current proposal will do just that. In its impact assessment the Commission says that "*...the new disclosure requirement would be more costly than the business as usual scenario. Additional costs may relate to drafting, publication, specific staff training or data collection. The cost of the proposed disclosure is estimated to be between €600 and €4300 per year per company,*" In Denmark, where (business-driven and flexible) CSR reporting became obligatory in 2010, a report was published by the Ministry of Economic and Business Affairs stating that "*the administrative burdens associated with CSR are 7-8 times higher than was expected before the bill was passed.*"

Similar to CSR itself, also the corresponding reporting should stay voluntary and only refer to the existing initiatives and policies of the individual company as it is good practice already today.

The key task of an enterprise is to run its core business and to follow the legal obligations linked to that. Additional administrative burdens should be avoided especially in the current economic and financial climate where the focus should indeed be on ensuring the continuing of businesses, creating growth and as a consequence more employment.

SPECIFIC COMMENTS

On the basis of these general points of concern, CEEMET would like to make more specific comments on some of the worrying provisions of the Commission's proposed changes to the Accounting directives:



The thresholds concerning a company's obligation to disclose a non-financial statement mentioned are far too low

The Commission suggests to include companies whose average number of employees exceeds 500 and exceed either a balance sheet total of 20 million euros or a net turnover of 40 million euros. As regards the number of employees, the threshold is too low when it concerns not only companies but also groups of companies which implies that some very small entities belonging to a group of 500 employees or more could be affected by the obligation to disclose non – financial information.

As regards the balance sheet and turnover, these thresholds would also include small companies in the scope of the directive.

CEEMET therefore suggests increasing the balance sheet total at least to 40 million euros, a net turnover to 80 million euros and the number of employees to 1000.

The request to report on risks related to companies' voluntary CSR practices is unreasonable.

CEEMET fails to see the feasibility of the request to report on risks related to companies' voluntary CSR practices. The business executives must bear responsibility for the impact of CSR on the company's financial situation and understand the business value generated by the allocation of resources to CSR practices within their companies. This kind of analysis is business information that companies in general wish to keep confidential. It would be extremely difficult to apply, and irrelevant for social matters in any case.

The “comply or explain” model needs to be business-driven and flexible.

CEEMET believes that companies ought to be able to choose what position they take on CSR in their annual reports as long as they state their choice.

Companies must be free to choose what subjects they include in their CSR activities, giving them incentive to form their own CSR strategy in a way they perceive most valuable. Predefined topics in the reporting must be avoided to assure this positive development.

National, EU-based and international frameworks already exist which the companies may rely upon

Companies may already rely upon guidance provided by internationally recognised principles and guidelines, such as the OECD Guidelines for Multinational Enterprises, the ten principles of the United Nations Global Compact and the Guiding Principles on Business and Human Rights, the ISO 26000 Guidance Standard on Social Responsibility, the ILO Tri-partite Declaration of Principles Concerning Multinational Enterprises and Social Policy and the Global Reporting Initiative.

CEEMET believes that adding an additional EU-layer on top of this list would just add complication rather than value for European companies or their stakeholders.

About CEEMET

CEEMET (Council of European Employers of the Metal, Engineering and Technology-Based Industries) is the European employers' organisation representing the interests of the metal, engineering and technology-based industries. Through its national member organisations it represents 200 000 companies across Europe. The vast majority of them are SMEs, providing over 13 million jobs of direct employment.

